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ANNUAL MEETINGS 1992

Preston: International Community Must Not Turn Its Back on the Poor

World Bank President Lewis Preston called for a global effort to meet the challenges of the post-Cold War era. Speaking in Washington to officials from 172 countries at the opening of the World Bank Annual Meetings on September 22, he urged a renewal of the cooperative spirit that led to the creation of the Bretton Woods institutions at the end of World War II.

"Now that the Cold War is over," he said, "domestic economic problems preoccupy angry electorates. Trade frictions are growing, and the economies of the former Soviet Union and of the world's poorest nations are declining." To overcome current global problems and to reverse the economic decline in much of the developing world, increased international cooperation is essential.

Mr. Preston said that poor countries are heavily dependent on concessional flows to finance their development programs and to reduce poverty. Therefore, a real increase in the resources of the International Development Association (IDA), the World Bank's concessionary-lending affiliate, is vital. "Donor budgets are tight, and events of the past week have created further uncertainties and pressures," he said. "But the poor should not be asked to bear the burden of adjustment in the rich countries as well as in their own. The international community must not turn its back on the poor."

Lewis Preston

Mr. Preston said that "there is no more important task facing humanity than poverty reduction and sustain-

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DEVELOPMENT COMMITTEE

Group Calls for Extra Efforts to Finance Development Programs in Poorest Countries

Some developing countries will continue to depend heavily on concessional financial assistance to carry out programs aimed at reducing poverty, protecting the environment and achieving sustainable economic growth, according to a statement issued September 21 by a committee that advises the World Bank and the International Monetary Fund (IMF).

The Development Committee, which met at the start of the World Bank and IMF Annual Meetings in Washington, said that "poorer developing countries will continue to require substantial concessional assistance for many years" to meet their development goals.

Most developing countries already use domestic savings—private and public—to fund the majority of their development investments, the committee stated. But because some sources of concessional assistance may be drying up, the committee urged these countries to take steps to further increase savings and make even better use of these funds. Promoting foreign investment and exports is another way for developing countries to mobilize the funds they need, the committee said, adding that at the same time, the international community should continue to find solutions to countries' debt problems.

The committee noted that the World Bank and IMF have called for "an in-

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Bank President Calls for Global Action To Prevent a Drop in Aid to Poorest Countries

The international demand for scarce aid is growing while the supply of aid may be shrinking because of budgetary constraints in aid-donor countries, World Bank President Lewis Preston said at the beginning of an international meeting in Washington on September 21.

Speaking to the Development Committee of the World Bank and the International Monetary Fund, Mr. Preston said the number of countries in need of concessional financial assistance is growing and called on aid-donor nations to continue—or increase—their support for development programs in the world's low-income countries.

The Development Committee has 22 members, usually ministers of finance from developed and developing countries. It meets twice a year to provide advice to the Bank and the IMF on major development issues.

Mr. Preston said the international community faces numerous "formidable" problems but warned that "this is no time to retreat from the supply of concessional resources to low-income countries."

The needs in many countries are greater than ever, he said. "Many poor countries, despite their own best efforts, will not be able to resume or sustain growth without the crucial supplement to domestic savings and investment provided by foreign aid. Nor will they be able to meet their poverty-reduction goals without further substantial investments in human-resource development."

It won't be possible, the Bank's president said, "for either the unfinished tasks of development or the glaring new needs of our turbulent world to be met without an increase in concessional assistance."

One of the main sources of concessional assistance for the poorest countries is the International Development Association (IDA), an affiliate of the World Bank.

But IDA depends on periodic replenishments of its resources by aid-donor countries, and negotiations on IDA's 10th replenishment are under way. Mr. Preston reported that discussions on the key issues of the size of the replenishment and of "burden sharing" have been difficult, and progress remains to be made. Burden sharing refers to the size of each aid donor's contribution to the replenishment.

The last time IDA's lending based was replenished—about three years ago—the aid donors contributed about SDR 11.7 billion. To equal in real terms what was provided last time, aid donors will have to contribute about SDR 13 billion. But even if an equal amount were pledged, it still wouldn't be enough to help all the countries requiring concessional financial assistance carry out development projects and measures to tackle poverty. Nine additional claimants on IDA resources have emerged since the last replenishment, and "the needs of . . . existing recipients show no signs of declining," Mr. Preston said.

Mr. Preston also called on the aid-donor community to make an additional contribution, or an "earth increment," to IDA to finance environmental-protection efforts in the poorest countries.

The Bank's president acknowledged that a number of aid-donor nations are facing budgetary constraints but he pointed out that aid still constitutes only an average of 1.7 percent of the budgets of many OECD countries and less than 1 percent of the U.S. budget.

To encourage aid-donor nations to increase their aid budgets, the developing countries must show that they are making productive use of the money they receive, and developed countries should work together to coordinate their aid efforts. "While budgetary realities must certainly be acknowledged," Mr. Preston concluded, "the vitally needed increase in concessional assistance can only come as a result of sustained political commitment and courageous political leadership." □

New Bank Executive Directors

The World Bank's Board of Governors elected 19 officials to serve as executive directors of the institution on September 23.

The governors approved a resolution a day earlier to increase the number of executive directors by two from 22 to 24. Five of the executive directors are appointed by the five largest shareholders. The other 19 are elected every two years by the governors representing the other member countries of the World Bank.

The executive directors are responsible for all major policy decisions of the institution, except those few matters— such as admission of new members—which are reserved to the Board of Governors.

Among the newly elected executive directors are Boris G. Fyodorov, who represents the Russian Federation, and Jean-Daniel Gerber, a Swiss national, who will represent Azerbaijan, Kyrgyzstan, Poland, Switzerland, Turkmenistan and Uzbekistan.

G-7 Predicts Stronger Economic Growth

Recent fiscal actions by some of the world's major industrialized countries will spur a faster global economic recovery, the Group of Seven said at their September 19 meeting in Washington, D.C.

The G-7 gathering included the finance ministers and central bank governors of the United States, Canada, Germany, Japan, France, Italy and the United Kingdom.

The group said new interest rate reductions and Japan's economic stimulus package will speed growth. But the group also repeated its pledge to keep inflation low during the drive toward recovery.

The ministers urged the World Bank to help Russia with its ambitious reform program by forming a support group offering technical aid. Russia, meanwhile, was advised to intensify its efforts.

The group also vowed to restore a stable currency market in the wake of September's financial turbulence.

G-24: Industrial Countries Should Carry Out Reforms, Boost Development Assistance

Economic reforms in many developing countries have been undermined by "slow and uneven recovery" of global production, slow growth in trade and the large fiscal deficits in industrial countries, according to a group representing developing countries.

The Group of 24, which met in Washington September 19, issued a statement that blamed high interest rates in Europe as one of the causes of slow growth in the global economy.

Industrial countries need to pursue "meaningful structural reforms and credible macroeconomic policies" and to reduce long-term interest rates to promote sustained global economic growth, the group stated.

Reforms in developing countries have led to "improved economic performance," the group said, adding that "the growth-oriented adjustment efforts of developing countries...should be supported by sustained and substantially increased concessional financial flows from the international community."

According to the group's statement, "aggregate resource flows" to developing countries increased moderately in real terms in 1991, but the amounts are still "far below" levels provided in the early 1980s. "There is an increasing gap between global resources available and the development financing needs." Mobilizing domestic savings is a crucial element in closing the financing gap in many developing countries, the group said.

To help meet the financing needs of the poorest countries in the coming years, the group called for a "substantial increase" in the next replenishment of the International Development Association's lending base.

In an address to the group, World Bank President Lewis Preston said that the volume of development aid has been stagnant for about a decade. "These are not easy times for development aid," he said. "Resources are constrained in the major donor countries. Publics and parliaments in those countries are increasingly questioning the effectiveness of development assistance."

The Bank's president added that "we all have an obligation to demonstrate that aid resources are being effectively used... Armed with the knowledge that greater attention is being paid to assure that aid is well used, we can press the case in donor countries for an increase in its volume. The unfinished tasks of development in low-income countries cannot be successfully confronted without additional volumes of concessional assistance." □

G-10 Calls for Quicker Economic Recovery

The 10 major industrialized countries must slash their debts and hold down inflation to speed up a weak global economic recovery, the Group of 10 said at their September 20 meeting in Washington, D.C.

Swift actions would help bring down long-term interest rates, restore business and consumer confidence and improve the chances for long-term growth, according to a statement by the group. The G-10 meeting included the finance ministers and central bank governors of the United States, Canada, France, Germany, Italy, Japan, the United Kingdom, Belgium, Sweden and the Netherlands.

The group also said it was "concerned" about the recent turbulence in currency markets. They welcomed recent short-term interest rate cuts in several countries and vowed to make exchange markets more stable.

Eastern and Central European countries won praise for cutting inflation and creating better business environments. The group hoped that the region would grow soon after several years of economic decline.

The former states of the Soviet Union also won merit for liberalizing prices and their shift to market economies. But the group urged the republics to speed up privatization of enterprises and remove barriers to enterprise trade. They also called on the states to set up a more stable monetary policy through a ruble stabilization fund.

U.S. Treasury Secretary Nicholas Brady was elected chairman of the group for 1993, replacing Donald Mazankowski, Canada's Minister of Finance. □

Resources from IDA May Fall Short

DEVELOPMENT COMMITTEE, *from page 1*

creased volume of external resources" to complement the efforts of the developing countries in meeting their financial needs. The committee said it "invited bilateral donors to increase their assistance, particularly for countries that are sustaining sound policies."

Action by multilateral agencies should complement actions by bilateral donors, the committee added and called on international negotiators to come to an agreement on the replenishment of the lending base of the International Development Association (IDA), the World Bank's concessionary-lending affiliate. Negotiators should also consider including an "earth increment" to the replenishment to help the poorest countries tackle environmental problems, the group said.

But during a press briefing that took place at the end of the committee's meeting, World Bank Managing Director Ernest Stern said that the prospects for a substantial replenishment of IDA's lending base and an earth increment were poor. Budgetary constraints in many aid-donor nations and the recent turmoil in international currency markets have complicated matters. "What seems to be emerging...is that...adjustment among the rich countries is, in fact, being put on the backs of the poor countries," Mr. Stern said.

The Development Committee has 22 members and meets twice a year. Most of the members are ministers of finance from developed and developing countries. □

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OFF THE PRESS

New Studies Present First-Time Information About States of the Former Soviet Union

The 15 new states of the former Soviet Union share a common past but need different solutions that fit their current situations, according to the World Bank's first studies on these states.

C. Michalopoulos

The five reports are the first issued under a new Bank series, *Studies of Economies in Transformation*, sponsored by the World Bank's Europe and Central Asia Region. They bring together for the first time information about economic reforms in the new independent states.

"The main message of the reports is that the world should start looking at these countries differently and not treat them as one country," says Constantine Michalopoulos, senior adviser in the department.

The first of the five reports, *Food and Agricultural Policy Reforms in the Former USSR*, shows the importance of agriculture in all the new independent states. It reveals how waste and inefficiency plagued agriculture in the past, perhaps more than any other sector. But it also shows how it could grow rapidly in the next few years if certain reforms are put in place.

The second report, *Trade and Payments Arrangements for States of the Former USSR*, recommends trade policies for the transition to a new market system. It suggests ways for the countries to stimulate trade with the West while keeping interstate trade alive in the meantime.

The third report, *Statistical Handbook: States of the Former USSR*, offers first-time country-specific information for each of the 15 states. The book provides 1990 data ranging from per capita gross domestic product to demographic makeup.

The fourth report, *Income Transfers and the Social Safety Net in Russia*, looks at the Russian cash benefits system. It shows the crude benefits network and suggests ways of making it more efficient in dealing with poverty and unemployment.

And the fifth report, *Foreign Direct Investment in the States of the Former USSR*, says confusing laws are hampering foreign investment in the new independent states. It offers country-specific studies showing the inflows of foreign capital in each state.

The Bank also recently published its first country study of the Russian Federation—*Russian Economic Reform: Crossing the Threshold of Structural Change*.

Journalists may receive complimentary review copies of the publications by writing on company letterhead to the World Bank Publications Department, Marketing Unit, Room T-8048, Washington, D.C., 20433, U.S.A. Fax:(202) 676-0579. □

Agriculture Offers Large Potential

Problems in the agricultural sector contributed to the economic crisis in the former Soviet Union, but if the right policy changes are made, agriculture could lead the economic recovery of the 15 new independent states, says a new World Bank report.

"Agriculture represents a crucial area in the overall economic reform effort [of the former Soviet Union]. Success or failure in agricultural reform will strongly influence future economic development, particularly during the transition," says the report, *Food and Agricultural Policy Reforms in the Former USSR*. The study is one of five new Bank reports on the states of the former Soviet Union.

The report reviews the food and agricultural sector in all the states but focuses on Russia.

The sector claims roughly one-third of investment and employment in these countries. Consumers on average spend one-half of their disposable income on agricultural products. The problem with agriculture in these countries is that it uses up large amounts of labor, investment and foreign exchange relative to how much it actually produces.

For agricultural performance to improve, free markets must play a main role in allocating resources. Enterprises that produce and distribute agricultural inputs and that purchase, process and sell agricultural output, must be privatized and allowed to respond to economic incentives. Changes are required in how farms are organized and managed. Changes are also needed in price, subsidy, credit and trade policy.

This process is complicated and difficult. Beyond addressing immediate steps to stabilize the food situation, the report suggests substantial change in the system will take three to five years. But the advantages of reform will be many, including more efficient agricultural production, a greater variety and quality of food commodities, and reduced net imports of agricultural products.

"An efficient agricultural sector has the potential for reducing agricultural imports and saving substantial foreign exchange," the report says.

The report addresses the following topics:

- ensuring an adequate food supply in the short term,
- improving agricultural production and efficiency,
- creating sound policies for food distribution and marketing,
- freeing up prices consistent with a market system,
- modifying income support programs and controlling subsidies for producers and consumers,
- diversifying the rural commercial banking system, and
- facilitating domestic and foreign investment in the sector.

The report also discusses the role that can be played by the international community. It supports continued assistance to the states of the former Soviet Union in the form of food assistance, technical assistance, training and investment. □

Russia Should Reweave Its Social Safety Net

Russia should reweave its social safety net into a more efficient web to catch the poor and unemployed, says a new World Bank report.

The Russian Federation must scrap the old Soviet benefits system which sent cash through the mail and kept records with pencil. Instead, the government must craft a new system that will meet people's needs in a market economy. The new setup should focus on reducing poverty, keeping benefits above inflation and addressing worsening unemployment, says the report, *Income Transfers and the Social Safety Net in Russia*. It is one of five new Bank reports on the former Soviet Union.

The report is not meant as a "rigid blueprint," says author Nicholas Barr, a consultant to the Bank and professor at the London School of Economics and Political Science.

Still, it suggests what Russia must do to make its system more workable and draws a sketch of rampant inefficiency in a system that doled out 10 percent of the nation's gross domestic product in the form of

See **SAFETY NET**, *page 8*

Foreign Investment Stalled by Vague Laws

Confusing laws are hampering foreign investment in the 15 states of the former Soviet Union, says a new World Bank report.

The states want to attract foreign investment. They have offered new incentives to foreign investors and are forging a new business climate. But their efforts are stymied by frequent and vague changes in investment laws.

"Foreign investors have been frustrated and baffled by major, frequent changes in laws concerning business and investment," says the report, *Foreign Direct Investment in the States of the Former USSR*. The report is one of five new Bank studies on the former Soviet Union.

Western capital is still flowing into joint ventures spread across the states, the report says. Total direct foreign investment is now just short of $1.6 billion.

But the inflows have slowed in recent years. Foreign investment fell from $640 million in 1989 to $480 million in 1990 and $240 million in 1991.

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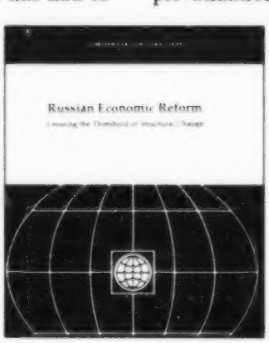
Russia Faces Unique Challenges

The Russian Federation faces unprecedented challenges in its attempt to simultaneously transform the economic, social and political basis of its society, says a new World Bank report.

The Russian government has had to initiate reforms under unfavorable circumstances, says the study, *Russian Economic Reform: Crossing the Threshold of Structural Change*. The report is the first in a series of Bank country studies of the new independent states of the former Soviet Union.



The links between macroeconomic stabilization and structural change allow for very few alternatives to comprehensive and thorough reform, it says.

Without sustained progress to enterprise reform, the stabilization program cannot hold as the state becomes hostage to the pressures from the enterprise sector. To this end, the report says, privatization and enterprise reform will be key to sustaining the momentum of reform.

"Slippages and missteps can be expected and have occurred," says the study.

The risks, however, will not be solely economic. The Russian government faces challenges in its institutional capacity to implement reforms. It also must be prepared to act to mitigate the social dislocation that will accompany structural changes in the Russian economy.

New States Must Walk A Fine Line On Trade

The 15 new states of the former Soviet Union should try their best to juggle trade reforms in the next few years, says a new World Bank report.

In one hand, the states must develop trade ties with the West. In the other, they must keep enough interstate trade alive to avoid soaring unemployment.

"We think they need to reorient their trade," said David Tarr in an interview. Tarr, a principal economist at the Bank, and Constantine Michalopoulos co-authored the report, *Trade and Payments Arrangements for States of the Former USSR*. Michalopoulos is a senior adviser in the Bank's Europe and Central Asia Department.

"They need to trade less between themselves and more with the West. But you just cannot break the ties overnight. If these countries can't sell to each other over the next few years, they will have a costly drop in sales," Tarr said.

Russia should take the lead in helping the new states to scrap their old system of trade and create a new one from scratch, the report says. But it urges caution in unraveling the interstate system that claimed 61 percent of Russian trade and 80 percent of the other states' dealings. Interstate trade has already dropped by 50 percent, says Michalopoulos.

The report calls on the new states to

- cut export restrictions among themselves and third countries with each state moving at its own pace;
- coordinate monetary policies better to smooth out interstate trade or set up independent currencies like Estonia has with its new Kroon;
- allow enterprises and companies to deal among themselves instead of forcing them to work through the state;
- set up a temporary "clearing union" or similar arrangement that would bridge the trade gap among states dealing in inconvertible currencies. This would move governments out of the way and allow trade to flourish among enterprises; and
- create temporary preferential trade areas among the new states to keep vital trade alive. But the states must ensure that the arrangements slowly die off in the next few years to allow the reorientation of trade. □

Annual Environmental Report Says Bank Is Translating Goals into Action

The World Bank is moving into the next stage of its environmental work, from earlier efforts to integrate the goals of environmental protection and development to a new phase of implementing policies and ensuring that action corresponds more consistently to objectives, according to a new report, The World Bank and the Environment, Fiscal 1992, published in Washington on September 21.

Mohamed El-Ashry

Mohamed El-Ashry, Director of the Bank's Environment Department presented the report at a press briefing at World Bank headquarters.

"The past four years have rightly focused primarily on stopping doing the bad things," Mr. El-Ashry said. "This task is certainly not complete," he added. "But we now have in place a set of policies and procedures...that can give us confidence that we are moving in the right direction." Over the past two years, he noted, the Bank has been able to "give more attention to a more positive and proactive strategy" in providing assistance to borrowing countries "as they struggle to put in place policies and institutions for sound environmental management and sustainable development."

The Bank's report on the environment reiterates the Bank's commitment to environmental protection and sustainable development. "Assisting member countries in their efforts to improve environmental management, while accelerating development, is the major objective of the Bank's environmental work," the report says.

World Bank lending for environmental projects in fiscal 1992, which ended June 30, totaled $1.2 billion for 19 projects that focused entirely on protecting the environment in developing countries. Another 43 projects approved during the year included significant actions to protect the environment.

Lending increased notably for strengthening environmental institutions in developing countries and for managing vital natural resources, such as forests, watersheds, wildlife, and soils. Of the projects approved in 1992, 10 were for improving natural-resource management and six for building up countries' capacity to plan and carry out environmental strategies and programs.

The report spells out the four basic objectives of the Bank's environmental strategy:

- to help developing countries set priorities, build up environmental-protection institutions, and implement environmental programs;
- to ensure that potential adverse environmental effects from World Bank-financed projects are addressed;
- to assist member nations in building upon the links between poverty reduction and environmental protection; and
- to address global environmental challenges through participation in the Global Environment Facility (GEF).

The GEF, set up in 1990, is jointly implemented by the United Nations Development Programme, the U.N. Environment Programme, and the World Bank. Governments participating in the GEF agreed in April 1992 to restructure the facility to enable it to serve as the financing mechanism for the global conventions on Biodiversity and Climate Change. The Earth Summit, held in Rio de Janeiro in June, endorsed the GEF's restructuring, which will give the facility a more important role in combating global problems, such as climate change, ozone depletion, loss of biological diversity, pollution of international waters, and land degradation and deforestation.

The Bank has moved steadily to integrate environmental concerns into all its activities. But major tasks lie ahead, the report says, adding that one such task is to develop practical approaches to help developing countries plan and implement sustainable development strategies and programs.

The Bank must move expeditiously to implement its environment-related operational directives and incorporate the findings and lessons learned from its own evaluations as well as independent reviews of its work, the report says. This will entail increased support for environmental projects—particularly clean water, sanitation, and energy efficiency; improved staff capabilities and skills; and more explicit integration of environmental costs and benefits into the economic evaluation of projects and policies.

"Our lending operations and studies will continue to be important vehicles for the Bank to help countries address environmental problems," Mr. El-Ashry said. "But the environment must also be an integral part of the Bank's dialogue with member countries on issues of policy, public expenditures and institutions. This will be essential for ensuring the country focus of the Bank's environmental work and for building countries' commitments to implement sustainable development strategies." □

GEF Grant Aids Protection of Primeval Forest

The Global Environment Facility (GEF) approved a $1 million grant September 24 to finance an international effort to protect the endangered Bialowieza primeval forest on the border of Poland and Belarus.

Actions financed by the grant will protect about 200,000 hectares of forest, which are threatened by air pollution, excessive tourism, and exploitation by timber harvesters.

Approval of the grant marks the first time the GEF has funded an environmental project in the former Soviet Union.

A GEF grant approved in December 1991 is helping protect the nearby Bialowieza National Park and forest ecosystem in Poland. The two grants will help protect these transboundary forests.

Educational Opportunities for Women Must Be Expanded, Bank VP Says

Starting next year, the "vast majority" of World Bank education lending will include specific steps to expand educational opportunities for girls and women, World Bank Vice President and Chief Economist Lawrence Summers said at a seminar in Washington September 21.

The World Bank is the largest single source of external funding for education in developing countries, Mr. Summers pointed out.

The Bank official said that an extensive body of recent research had convinced him that "once all the benefits are recognized, investment in the education of girls may well be the highest-return investment available in the developing world."

In addition to the direct, positive effect that education has on the wages of female workers, educating women yields great social benefits as well, Mr. Summers said, adding that educating girls can result in lower child and maternal mortality and fertility rates. In India, for example, providing 1,000 girls with an additional year of primary schooling would prevent an estimated 40 child deaths, avert 300 births, and prevent the deaths of two women during childbirth.

Educating women yields other benefits that are more difficult to quantify. These benefits include slowing the spread of AIDS and protecting the environment. Research has shown that in urban areas of Africa, educated women are more likely to know how to prevent the transmission of the AIDS-causing human immunodeficiency virus than uneducated women. And, better educated women tend to manage natural resources more effectively.

Enrollments of boys in primary schools in developing countries outnumber enrollments of girls, Mr. Summers said. To make the enrollment rates equal, these countries would have to educate an additional 26 million girls each year at an estimated cost of $1 billion. Boys outnumber girls in secondary schools, too, Mr. Summers said. Making secondary school enrollments equal would require educating an additional 32 million girls at a cost of $2.2 billion.

Eliminating educational discrimination in developing countries would therefore cost about $3.2 billion, Mr. Summers said. The amount may seem large, but it represents only about one-quarter of 1 percent of these countries' gross domestic product, less than 2 percent of their government consumption spending and less than 1 percent of their investment in new capital goods. □

Lawrence Summers

Fifteen Former Soviet Republics Have "Great Potential"

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able development." The most urgent environmental problems, he said, were those that cause illness and death on a huge scale in the developing world—dirty water, inadequate sanitation and pollution. "In the global environmental debates," he said, not enough attention has been given to these issues. "Ours must be a people-first environmentalism."

He noted that the World Bank's investment in water and sanitation would increase by 75 percent over the next five years. Support for pollution control, agricultural services and national environmental action plans would also expand—thus helping to "ensure concentration on problems that have the greatest impact on human welfare."

Mr. Preston said that sustainable economic growth, combined with investments in education, health, and family planning would provide the most effective means of addressing the environmental problems which affect poor people most directly. He also emphasized that there was a clear need for increased sensitivity to the environmental impact of development activities. "We must assess environmental costs and benefits, engage in local consultation, and seek broad participation in all development projects."

Mr. Preston said that the transition of the formerly centrally planned economies, particularly in the 15 new nations of the former Soviet Union, is another major challenge of the post-Cold War era. "The world's stake in their success is enormous," he said.

He noted that while the difficulties of transition to market-based systems were formidable, the 15 new nations had great potential. "They produce a third of all the world's doctorates in science and engineering. They have a highly educated workforce and many of them are well endowed with natural resources," he said. "The transition can succeed."

The creation of a viable private sector is the key to long-term growth, Mr. Preston asserted. Fundamental structural reforms are necessary to promote small businesses, privatize the large state-owned enterprises, unlock the productive potential of key sectors such as energy and agriculture, and remove internal trade barriers. He said that substantial external financing would be required to support these reforms. "Several of the new nations have asked the Bank to chair Consultative Groups on their behalf, and the Bank is pleased to be leading the effort."

The World Bank President stated that nuclear safety is another issue demanding immediate attention. "Unsafe nuclear plants in the countries of the former Soviet Union and Eastern Europe pose grave dangers," he said. The International Atomic Energy Agency and the European Bank for Reconstruction and Development are taking the lead in providing technical assistance and financing for safety upgrading and decommissioning. The World Bank is taking the lead in energy sector studies which can help identify conventional generating capacity for the power now being supplied by unsafe nuclear plants. Mr. Preston added, however, that "the costs of upgrading nuclear safety and providing replacement capacity are large. They will require joint action." □

Safety Net Fails to Catch Many Russians

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everything from unemployment checks to pension benefits. Russia must change benefits payments, retirement rules, service-delivery methods and worker-employer contributions, says Barr.

Unemployment benefits must be streamlined and brought down to subsistence-level payments. Currently, the system pays the unemployed a benefit package close to the national average income. It also pays the same adult benefits to children and skews the food basket too heavily toward meat products.

The government should also stop paying pension benefits to citizens under 60 years old who also work full time, says Barr. Under the current system, many workers retire at the legal age of 60 and continue to work elsewhere while drawing invalidity and pension benefits.

The government needs to beef up its capacity to administer and deliver benefits. Currently, the social insurance offices lack copiers and computers, often resulting in six-week delays for benefits to reach recipients.

Barr also advises the government to clarify how much the workers and their employers contribute to their pensions by stamping it on their pay slips. Currently, the authorities have no record of contributions.

Also, the government should create a common unemployment benefit for the inactive and the "able-bodied" poor, he says. Under the current system, two different ministries dispense funds to the two separate groups. □

Unclear Laws Blur Investment Picture

INVESTMENT, *from page 5*

Investors remain uncertain about vague laws touching on the repatriation of their profits and exchange of currency, the report says. Weak banking, financial and business services cause problems. Also, the political future of the states worries many investors.

"Western companies are very concerned about the political stability of these new countries," the report says. "If a country is considered politically unstable, investors become skeptical that existing legislation and economic policies, no matter how attractive, will last."

The report says foreign investment is central to speeding up the states' transition from centrally-planned economies to free-market systems. It allows them access to technology, capital, management skills and export markets.

Russia has claimed the lion's share of foreign investment, the report says. Estonia, Lithuania and Latvia have also lured large amounts of capital. The Central Asian states have not fared as well, but Uzbekistan is picking up.

Russia also ranks as the largest investor in the states, followed by the United States, Germany, Finland, Ukraine, Poland, Italy and the United Kingdom.

Most of the foreign investment pours into joint ventures. Under the former Soviet Union, joint ventures were the only way foreign nationals could invest in the states. But now, some are allowing wholly-owned foreign subsidiaries and equity investment in domestic firms.

Most of the joint ventures are concentrated in manufacturing, the report says. In the Baltics, most of the ventures take place in retail trade. □

New Director Of Bank's Paris Office

The World Bank has appointed a new director of the institution's European office in Paris. Hans Wyss, a Swiss national, will take up his post in early 1993. He replaces Olivier Lafourcade. Mr. Wyss joined the Bank in 1959 and has held senior positions in the institution. He is currently director of the Central Operations Department. □

Hans Wyss

World Bank Places Yugoslavia Loans in Nonaccrual Status

The World Bank has placed all loans to—or guaranteed by—Yugoslavia into nonaccrual status as of September 15. The move does not include loans to—or borrowers in or for the benefit of—Croatia and Slovenia.

The Bank places loans into nonaccrual status when a country is six months behind on payments.

The overdue amount totals about $252 million, which includes $190 million or principal and $62 million in interest and other charges. □

Former Soviet Republics Join Bank

Five republics of the former Soviet Union have joined the International Bank for Reconstruction and Development.

Armenia joined on September 16, Azerbaijan and Kyrgyzstan on September 18, Uzbekistan on September 21 and Turkmenistan on September 22.

So far, 14 of the former Soviet republics have joined the Bank. Tadjikistan, the only republic that is not a member of the Bank, is expected to join the institution later this year.

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IBRD is the main lending arm of the World Bank. IDA is the World Bank affiliate that lends on concessional terms to the poorest countries. IFC finances private sector projects and advises businesses and governments on investment issues. MIGA promotes foreign direct investment through guarantees, policy advice, and promotional services.